

Guidelines for Carve-outs

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Note: The following definitions may be helpful in reading this material:

The displacement property is the residence being acquired by the Agency.

The comparable property is the residence selected by the Agency in the Replacement Housing Study.

The replacement property is the substitute residence actually selected by the displacee.

Introduction

We have provided a discussion on carve-outs and several examples to serve as a guide. Please keep in mind that these examples will not cover all the possible variations that we will find in practice in Relocation.

Why do a Carve-out?

Basically, a carve-out is used to compare “apples” with “apples.” For the housing additive studies, the basic premise is to replace the residential portion of the property.

What types of features may indicate that a carve-out should be considered?

- The displacement property has a major exterior attribute such as a swimming pool, a large shed or a large shop that is not found in the replacement housing comparables that are available.
- The displacement site is substantially larger than a typical site for residential purposes or is substantially larger than the size of the available comparable replacement sites. This excess land must be found to contribute significant value that is not replaced by the selected comparable in the housing study.
- The displacement property has a mixed use or multiple use. Examples are a duplex where the owner occupies one unit and rents out the other or a commercial use building in which the owner also lives.
- The displacement residence is an under-improvement on a larger commercial or industrial site.
- The actual **replacement** that is selected by the displacee may warrant a carve-out for the same reasons as noted above: additional major exterior attributes, excess land, mixed or multiple use properties, etc.

Commonly Asked Questions about Carve-Outs

1. What constitutes a **major exterior** attribute?

It is something outside of the dwelling that adds significant value to the property. A carve-out of this attribute is necessary if the selected comparable in the study does not possess the same attribute. Examples may include a greenhouse, shop, barn, tennis court, etc.

2. How do I know if I should consider a carve-out of the displacement property for excess land? When is extra land actually considered excess?

The presence of one or more of the following factors may signify that a carve-out should be considered.

- The sites of properties with comparable dwellings are substantially smaller than the displacement property.
- As the property is improved, the excess land can be used for one or more additional building sites.
- The excess land is a separate tax lot.
- The excess land has different zoning.
- The excess land adds substantial value to the property. This value may or may not be reflected in the appraisal. If not, the appraiser and the reviewer can be consulted to determine the value.

3. Do we do carve-outs for the actual replacement property?

Yes, we may do so, for similar reasons listed above, especially when we have carved-out the displacement property as part of the housing additive study.

It is very important to advise displacees that when we carve-out at the displacement site as part of the housing additive study, we can also carve the value of this item from the selected replacement site.

4. Does a carve-out create a windfall payment for the property owner?

No, if done correctly, but we must proceed carefully when determining whether or not a carve-out is needed.

Under the regulations, we are looking for a comparable dwelling that replaces the residential use of the replacement dwelling. We do not include additional assets, including land and buildings, that do not contribute to the residential use of the home. Additional assets like land and buildings could be related to a separate business or an investment similar to a bank account or stock certificate. If it is indeed a major **exterior** attribute, then it is appropriate to carve-out this feature.

To be fair and equitable to the displacees, it is important that “apples” and “apples” be compared when completing the housing additive study. If the exterior attribute has a significant value and is a major item and the comparables do not have this feature, then it is appropriate to consider a carve-out. Examples can include items such as a swimming pool or a large barn or a separate building for a workshop or excess land. Keep in mind that these must be significant items.

In the Housing Additive Studies, there may also be additional features in the comparables that offset similar features in the displaced residence. When looking at the entire package, the selected comparable should be equal to or better than the displaced residence. For example, the comparable could have had an attached garage where the subject had a carport with an enclosed storage area. The house could be in slightly better condition. So, in deciding whether or not a carve-out is necessary, it is important to look at what comparables are available in the market.

5. What if we decide not to carve-out a feature, is this a disadvantage to the displacee?

No, it is not a disadvantage, if it is done correctly.

In housing studies, we do consider trade-offs for some features that are not major attributes. For instance, if the subject has an unfinished basement, we may select a comparable that has additional storage available, such as an attic or additional garage space. If the subject has a lot that adds slightly more value, this could be offset by a slightly better neighborhood or better condition of the house or better landscaping or privacy fencing. These trade-offs can be considered for special features. In this way, we consider the complete package and decide if this comparable is equal to or better than the subject. **Our primary consideration is on the dwelling.** Thus, when considering all of the features, we are treating this displacee fairly and equitably.

6. Who determines if a carve-out is necessary?

The Relocation Unit has the final approval on a carve-out.

In relocation, there will be different variations that we will encounter. Please consult with the Relocation Unit regarding questions on a potential carve-out.

The following examples are guides to help understand carve-outs. It is important to consider each case individually and measure them against these guidelines.

Carve-out Example 1: Major Exterior Attribute (Large Pool)

This case is a complete taking of a residential property with an in-ground swimming pool. The Agent has found three residences which are all suitable comparable properties, however they do not have swimming pools. The one considered to be the most comparable is available on the market for \$199,000. The subject property was appraised for \$190,000 with the appraiser making the following allocation.

Land	35,000
House and Garage	135,000
Landscaping and Site Improvements	15,000
Swimming Pool	5,000
TOTAL APPRAISED VALUE	\$190,000

The replacement cost of the pool is \$12,000, according to a reputable bid from a contractor.

How much is the Replacement Housing Payment?

The replacement housing payment is \$14,000.

Why?

Since the selected comparable does not have a swimming pool, we first carve-out the value of the swimming pool from the subject. The value of the pool is what it contributes to the total property as determined by the market. This value does not always equal its replacement cost. The computation is as follows:

Value of displacement, including pool	\$190,000
Contributory Value of Pool	5,000
Value of displacement, minus value of pool	\$185,000

Carve-out Example 1 continued:

We then calculate the Housing Additive (or Price Differential) as follows:

Cost of Replacement	\$199,000
Adjusted acquisition price, displacement	185,000
Housing Additive	\$ 14,000

Other major exterior attributes may also include items such as a separate shop, greenhouse, or extra garage.

What if the displacees in this example purchase a replacement site for \$192,000 plus add an in-ground swimming pool for a cost new of \$12,000? What is their housing additive?

They would be eligible to receive a housing additive of \$7,000. Our housing study indicated that they must spend \$199,000 for a replacement house without a swimming pool. They actually replaced their residence for \$192,000 without the swimming pool. It is of no concern for relocation purposes whether or not they actually replace their pool.

When there is a carve-out of a major exterior attribute, we must carefully advise the displacees, so they know that we can also carve this or other major features from the selected replacement for purposes of the housing additive payment. This may mean that they will not be eligible for the maximum replacement housing additive. Making this clear up front will assist them in being knowledgeable in searching for a replacement property and will help avoid surprises.

Keep in mind that a carve-out for relocation purposes has no influence on the acquisition payment to the owner. In this example, the displacees would be paid the full \$190,000 for their property under acquisition, including the \$5,000 contributory value of the swimming pool. They would also receive a \$7,000 housing additive.

Carve-out Example 2: Multiple Use: The Owner occupies one-half of a duplex.

A couple owns a duplex. They rent out one-half and occupy the other half. Each unit has four rooms, two bedrooms, one bath and approximately 700 square feet of habitable area. The unit is about 25 years old and in good condition. There is a single-car garage for each unit which separates the two units. The property is located in a good neighborhood. The appraised value is \$170,000.

The selected comparable is also a duplex for sale for \$182,000. Each unit has four rooms, two bedrooms, one bath and approximately 725 square feet of habitable area and a single-car garage. The unit is about 20 years old and in good condition. It is in a good neighborhood.

How much is the replacement housing payment?

First, we carve-out the value of the owner occupied portion of the duplex. In this case, it is 50% of the value or \$85,000.

The selected comparable is also a duplex unit. We carve-out the value of one-half of this unit. Since both sides are equal, it too is 50% of the value or \$91,000.

The replacement housing payment is calculated as follows:

Carve-out Value, Comparable Duplex	\$91,000
Carve-out Value, Subject Duplex	85,000
Housing Additive (Price Differential)	\$ 6,000

Comments: We first establish the value of the owner occupied unit. We seek comparable duplex properties. Under relocation, we cannot supplement the investment portion of the property (i.e., the portion not occupied by the owner). We base our replacement housing computation solely on the value of the unit the owner occupies, in the displacement dwelling and on the value of one unit in the comparable that best replaces the functional living area of the owner-occupied unit.

Discussion Regarding Carve-outs for Mixed Use Properties

An adjustment may be necessary when the displaced person uses a portion of the displacement property for other than residential use. One example is a “Mom and Pop” store with living quarters behind or above the store.

An adjustment is necessary in a mixed-use situation because by law we can supplement only the residential use portion of the displacement property. Although the price differential payment could be computed using a similar, mixed-use property, if available, adjustments would be necessary to both the displacement property and to the selected comparable properties. Since direct comparables are often not available, it is much easier to carve-out the residential portion and compare it to comparable residential units.

How do we establish the residential-use value for a mixed use property?

This adjustment can be perplexing because the residential-use value may be quite difficult to establish. For example, if the subject property is a drug store and the displaced owner occupies an apartment above the store, in all likelihood, the majority of the fair market value for the property would be attributable to the commercial portion. If the market approach were used in establishing the fair market value, and the comparables had similar apartments, the appraisal would shed no light on the value of the residential-use portion. One answer may be to use the income approach. If the appraiser has provided the market rent for the store and for the apartment, the income approach may be used even if it was not relied upon in the final correlation of value. If the market rent for the store was shown at \$750 per month and the apartment at \$250 per month the apartment would represent 25% of the gross income for the entire property. ($\$250/\$1,000 = 25\%$). The appraisal section should be consulted to establish the value of the residential unit and the file documented with the factors used in establishing the value.

If, we initially determine that this is a mixed used property with an owner occupant, it is helpful if the appraiser, negotiator, and the relocation unit can consult as early as possible to determine if additional information needs to be included as part of the appraisal assignment. The appraiser should be asked to provide market rent for both the residential and non-residential uses or determine a breakdown of the separate contributory values for all uses as a part of the appraisal assignment to assist in the relocation housing additive study.

Carve-out Example #3: Mixed Use: Residential and Non Residential Uses (Owner Occupied Unit/Drug Store on First Floor).

The displaced person occupies the second floor apartment above a drug store which he also occupies. The entire property has been valued at \$200,000. Recognizing the mixed use relocation problem early on, the appraiser is asked to provide market rents for both units. The market rent is \$750 per month for the drug store and \$250 per month for the apartment.

Carve-out Computation for the Subject:

Fair Market Value - entire property	\$200,000
Drug Store Portion = $\$750/\$1,000 = 75\%$	- 150,000
Carve-Out Value Apartment	\$ 50,000

Because direct, mixed use comparables are often not available, the only option is to carve-out the residential portion and compare it to comparable residential units.

For this example, a comparable residential unit is for sale for \$60,000.

Housing Additive Computation:

Adjusted Asking Price for Comparable Unit	\$60,000
Carve-out Value of Subject Apartment	50,000
Housing Additive (Price Differential)	\$10,000

Carve-out Example #4: Mixed Use: Owner occupies the residence on a dairy farm.

This is an entire acquisition of a dairy farm that is 161 acres in size, including the one acre homesite. The owner occupies the residence located on this property. Typical residential lots in the area are one acre. The appraised value of the farm was allocated as follows:

Land: 160 acres @ \$1300/acre	\$208,000
Homesite: One Acre	30,000
Residence and Site Improvements	50,000
Garage	5,000
Barn	45,000
Sheds	42,000
TOTAL	\$380,000

A comparable residential property was found on the market. It is located on one acre. The following allocation was made:

Residence and Site Improvements	\$60,000
One Acre Homesite	30,000
Garage	4,500
TOTAL	\$94,500

What is the replacement housing payment?

First, determine the carve-out the value of the subject property:

Homesite: One Acre	30,000
Residence and Site Improvements	50,000
Garage	5,000
Carve-out for Residence	\$ 85,000

Then, compare this with the comparable.

Price of Selected Comparable	\$94,500
Carve-Out Value of Residence	85,000
Calculated Housing Additive	9,500

Example #4 continued:

Comments: In this example, it is most straightforward to find a comparable residence located on one acre. However, the size of the typical residential comparables that are available in the area should also help direct the area carve-out for the displaced residence. If the available comparables are on 3 acre sites, then 3 acres can be carved out from the displaced farm.

Using another farm as a comparable is not recommended due to the number of variables that would have to be accounted for. If one was used, it would be necessary to carve-out the residential portion of the property, just as was done for the study. This market data may be difficult to determine. The real estate agent may provide some information or the appraisers for the properties may have some reliable market evidence. It

would be necessary to proceed carefully. It is important to highlight this relocation problem at the appraisal phase, so that, if necessary, allocations can be determined by the appraiser for the subject property.

Carve-out Example #5: Excess land: Owner owns an adjoining vacant residential lot.

The owner of this property has a home located on a typical residential lot and also owns an adjoining vacant lot. The property was appraised with the appraiser making the following allocation:

Land: 2 lots @ \$20,000	\$40,000
Residential building and improvements	90,000
Total	\$130,000

The Agent found a comparable home on a single lot for \$132,000.

How much is the Replacement Housing Payment?

The value of the second lot is carved out. This lot is developable for another homesite and is also an investment property. It has substantial value in the market. This is excess land that does not contribute to the value of the residential portion of the property.

First, calculate the carve-out:

Total value of the property	\$130,000
Less the value of the second lot @ \$20,000	20,000
Carve-out value for the residence	\$110,000

Next, compute the value of the housing additive:

Price of Selected Comparable	\$132,000
Carve-out value for the displaced residence	110,000
Total Housing Additive	\$ 22,000

Carve-out Example #6 - Excess Land: One single oversized homesite

The displacement property is a 30,000 s.f. homesite situated in an area where typical homesites are closer to 10,000 s.f. The entire property is being acquired. Based on the way the existing house and garage are situated, the site cannot be divided into additional building sites without removing the residential improvements. These improvements contribute significant value; it would not be cost effective to remove them at this time in order to subdivide the property. The appraisal values the property as follows:

Land: 30,000 s.f. residential site	\$ 50,000
House, garage & yard improvements	100,000
Total	\$150,000

The replacement housing study locates several good comparable houses in the area on typically sized sites of 10,000 s.f. The selected comparable is available for \$140,000. Are the displacees eligible for a housing additive?

The main question to be answered is: does the additional 20,000 s.f. of land that goes with the displacement property and is not found in the comparables add significant value over and above the typical lot size? The appraisal did not address this question. To answer it, the agent can do several things. Sales and/or listings of typically sized residential sites in the area can be obtained to determine whether the value would be significantly lower than the \$50,000 attributed to the displacement property's site. Another means of checking would be to ask the appraisal reviewer whether the additional area adds value. The reviewer will probably check with the appraiser who valued the displacement property. Even though the displacement site is substantially larger, the market for residential properties in the area might not give much value to added land area. It is possible that the excess land is not very usable due to topography, wetlands, existing septic systems, etc. These are things that need to be considered in answering the question of added value due to the excess site area.

In this example, it is determined that a typical 10,000 s.f. site is valued at about \$35,000 in that neighborhood. The appraiser is consulted and confirms that the oversized site does add significantly to the total property value. Based on this information, a carve-out is done as follows:

Total value of the property	\$150,000
less the value of the excess land	15,000
Carve-out value for the residence	\$135,000

Carve-out Example 6, continued:

The eligible housing additive value is computed as follows:

Price of selected comparable	\$140,000
Carve-out value of the displaced residence	135,000
Total Housing Additive	\$ 5,000

Carve-out Example #7: Excess Land: Entire acquisition of a residence located on a large site with a different highest and best use (commercial, industrial, etc.)

A one acre parcel zoned commercial with a residence is being acquired in its entirety for a highway project. At one time this was a residential area, which is now primarily commercial because of the increased traffic. Typical residential lots in the nearby residential neighborhoods are 10,000 SF. The appraiser has valued the entire property at \$237,000. The appraiser's allocation is as follows:

Land (Commercial Value @ \$5/SF)	\$217,800
Residence (Interim Value)	20,000
Total	\$237,800

A housing additive study found a comparable house for \$120,000 on a 10,000 SF lot.

How do we calculate the replacement housing payment?

First, carve-out the value of the residential portion of the property, as follows:

\$5/SF Commercial Land Value x 10,000 SF Typical Size Lot = \$50,000	\$50,000
Contributory Value of Residential Improvements	20,000
Carve-Out Value for Residential Improvements	\$70,000

Next, we calculate the Housing Additive, as follows:

Comparable House	\$120,000
Carve-out Value for Residence	70,000
Total Housing Additive	50,000

Comment: The basic principle for the carve-out in this situation is to use the value of the land at the Highest and Best Use land value and add any contributory value allocated in the appraisal to the residential improvements. Other considerations are: to choose an appropriate site size representative of the neighborhood and to make appropriate justifications where necessary, eg. when comparing properties with well/septic and comparables with city water and sewer.

Carve-out Example #8 - Excess Land: Partial Acquisition of a house located on a site with a different highest and best use (commercial, industrial, etc.)

A 13,000 s.f. strip of land is being acquired from a larger parcel containing 3 acres that are zoned and ready for commercial development. Included in the taking is an owner-occupied residence. Typical residential sites in this area are estimated to be around 10,000 s.f. The appraisal values the taking as follows:

Land (commercial values @ \$10 / s.f. times 1,300 s.f.)	\$130,000
House (under-improvement)	\$0 contributory value
Total	\$130,000

As with the preceding example of an entire take, the size of typical residential sites in the area of the displacement property is essential in calculating the housing additive. In this example, the typical residential site size is 10,000 s.f. Since the area of the taking exceeds that size, a carve-out of the land in the taking is necessary.

\$10/S.f. commercial land value x 10,000 s.f. (typical residential site)	\$100,000
House (under-improvement)	\$0 contributory value
Total carve-out value	\$100,000

The housing study found a comparable replacement dwelling on a typically-sized residential site for \$120,000. The housing additive is calculated as follows:

Comparable replacement property	\$120,000
Carved-out value for residence	\$100,000
Maximum Housing Additive	\$ 20,000

With partial takes, the area of the taking might be less than the area of the typical residential site. In those instances, a carve-out is not needed. The entire area of the land taken along with any contributory value to the residential improvements is used as the basis of the additive calculation. For instance, if the taking in the above example was 8,000 s.f., the housing additive calculation would be as follows:

Comparable replacement property	\$120,000
8,000 s.f. @ \$10/s.f., no contributory value to the house	\$ 80,000
Maximum Housing Additive	\$ 40,000

Other considerations are: to choose an appropriate site size representative of the neighborhood and to make appropriate justifications where necessary, eg. when comparing properties with well/septic and comparables with city water and sewer.

Carve-out Example #9: Replacement Residence with a Major Exterior Attribute (Large Pool)

The owners purchase a replacement property with an in-ground swimming pool for \$205,000. The Agent, in talking with reputable realtors and consulting with the Appraisal Unit, determined that the market identifies this as an extra feature that is worth an additional \$10,000. The owners had an in-ground swimming pool at their displaced home. This feature was carved-out for the selected comparable in the replacement housing study.

The selected comparable replacement house was \$200,000. The carve-out value without the swimming pool for the displaced dwelling was \$190,000. They are eligible for a maximum Replacement Housing Payment of \$10,000.

What are they eligible to receive for a housing additive?

They are eligible to claim \$5,000.

Why?

The value of the swimming pool must first be carved-out from the replacement property. This is a significant exterior attribute which the market identifies as having value. The calculation is as follows:

Price paid for the replacement dwelling	\$205,000
Estimated additional value paid for the swimming pool.	10,000
Carve-out Value for the Replacement House	\$195,000

Based on this carve-out of the replacement, they are eligible to claim \$5,000. (\$195,000 less \$190,000.) They spent \$195,000 not including the swimming pool to replace the residential dwelling. They are not eligible to claim the maximum housing additive of \$10,000, based on this replacement dwelling.

It is important that displacees be given advisory assistance up front, to avoid surprises later. Significant **exterior** attributes such as land, buildings, etc. that are identified as having value in the market can potentially be carved out from the replacement property.

Addendum 1

EXCERPTS FROM ODOT RIGHT OF WAY MANUAL (May 1996 Version) REGARDING CARVE-OUTS

These excerpts are provided for your information regarding carve-outs. Please refer to the current manual for the most complete information regarding all aspects of relocation.

6.790 CARVE-OUT VALUES

6.793 Displacement Carve-Out

It may sometimes be difficult to find a comparable replacement dwelling in a housing price differential study because the displacement site is atypical of offerings in the area. However, only that portion of market value which is attributable to a homesite and the displacement dwelling need be considered in computing benefits. (See Benefit Calculation, 6.684) It is important that field personnel recognize the need for a carve-out and request an early estimate. Examples of instances requiring carve-outs are:

1. When a dwelling is located on a tract larger in size than typical for residential use in the area.
2. When an owner occupies one unit of a multiple dwelling. The owner is entitled to benefits based on the carved out value of a replacement unit. (See Owner-Occupant of a Multiple Dwelling, 6.710)

The value of the carve-out should be based on the appraisal and approved by the Region Supervisor or project manager. If the appraisal is unclear or the use of the breakdown from the appraisal would be inequitable, a written carve-out should be obtained from the Appraisal Reviewer.

Excerpts from ODOT Manual, continued:

6.796 Replacement Carve-Out

The carve-out procedure is used when displacees purchase a replacement property which contains attributes not intended for their residential use. These could include commercial buildings, rental units, or farm land.

The agent deducts the value of these non-residential attributes from the replacement purchase price for the purpose of benefit computation.

This could make a claimant ineligible for the maximum replacement housing payment, even though the price of the replacement, including the extra attributes, was greater than the minimum purchase price required to claim the maximum benefit.

Displacees who express an interest in acquiring a mixed use replacement property must be cautioned in advance of the possibility of such a carve-out.

6.684 Benefit Calculation, (partly excerpted)

The procedure for adjusting the asking price of comparable replacement dwellings requires that the agent provide advisory assistance to the displaced person concerning negotiations so that he or she may enter the market as a knowledgeable buyer. If a displaced person elects to buy one of the selected comparables but cannot acquire the property for the adjusted price, it is appropriate to increase the replacement housing payment to the actual purchase amount.

If the site of the comparable replacement dwelling lacks a major exterior attribute of the displacement dwelling site, (e.g., the site is significantly smaller or does not contain a swimming pool), the value of such attribute shall be subtracted from the acquisition cost of the displacement dwelling for purposes of computing the payment. See 6.793 for more details on determining such a displacement carve-out.

Excerpts from ODOT Manual, continued:

6.710 Owner-Occupant of a Multiple Dwelling, Paragraphs 1 & 2

If the displacement dwelling was part of a property that contained another dwelling unit and/or space used for non-residential purposes, and/or is located on a lot larger than typical for residential purposes, **only that portion of the acquisition payment which is actually attributable to the displacement dwelling shall be considered its actual cost when computing price differential.**

In other words, the owner-occupant of a multiple dwelling unit is entitled to the same benefits as any other owner-occupant. However, the comparable dwelling should have the same number of units as are in the acquired structure. If no similar structures are available, a building with fewer units must be used. **The value of the owner's unit, not the value of the entire subject property, is used to determine the replacement housing payment. The replacement housing payment is the difference between the value of the owner's living unit as determined by a carve-out and the value of a comparable living unit in the most comparable property.**

Addendum 2

EXCERPTS FROM FEDERAL REGULATIONS REGARDING CARVE-OUTS

These excerpts are provided for information regarding carve-outs. Please refer to the current regulation for the most complete information regarding all aspects of relocation.

Subpart E - Replacement Housing Payments, Section 24.401 Replacement Housing Payment for 180-day homeowner-occupants (c) (2):

Mixed-use and multifamily properties. If the displacement dwelling was part of a property that contained another dwelling unit and/or space used for non-residential purposes, and/or is located on a lot larger than typical for residential purposes, only that portion of the acquisition payment which is actually attributable to the displacement dwelling shall be considered its acquisition cost when computing the price differential.

Subpart E - Replacement Housing Payments, Section 24.403 Additional rules governing replacement housing payments. (a) (2):

If the site of the comparable replacement dwelling lacks a major exterior attribute of the displacement dwelling site, (e.g., the site is significantly smaller or does not contain a swimming pool), the value of such attribute shall be subtracted from the acquisition cost of the displacement dwelling for purposes of computing the payment.

Section 24.403 Additional Rules Governing Replacement Housing Payments – Appendix A to Part 24 Section 24.403 (a) (1):

The procedure for adjusting the asking price of comparable replacement dwellings requires that the agency provide advisory assistance to the displaced person concerning negotiations so that he or she may enter the market as a knowledgeable buyer. If a displaced person elects to buy one of the selected comparables, but cannot acquire the property for the adjusted price, it is appropriate to increase the replacement housing payment to the actual purchase amount.